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Navigating the new normal: A conversation with four chief strategy officers

Executives of Boeing, Estée Lauder, Smith International, and Visa discuss setting strategy in the wake of the downturn.



Are we experiencing a conventional economic cycle? Or did the financial crisis of 2008 and subsequent global economic downturn mark the beginning of a “new normal” characterized by fundamental changes in the use of leverage, trajectory of globalization, nature of consumption patterns, and appetite for risk taking? Few, if any, members of the C-suite are better positioned to answer these questions than chief strategy officers, who typically find themselves on the hook for identifying tectonic shifts in the competitive landscape—and for predicting the future.

In early October 2009, we sat down with the CSOs of Boeing, Estée Lauder, Smith International, and Visa to discuss what has and hasn’t changed over the past year. While they didn’t agree on everything, the four executives painted a collective picture of an environment in which setting strategy has become more complex: planning cycles are shrinking, future growth trajectories are harder to predict, and business assumptions that once seemed indisputable are now coming into question. What’s more, the rapid pace of economic events is challenging CSOs in their efforts to focus on the long term, and to keep the organization and its processes well aligned with shifting strategic priorities. McKinsey’s Allen Webb conducted the interview in New York with Rik Geiersbach of Boeing, Peter Jueptner of Estée Lauder, Peter Pintar of Smith International, and Niki Manby of Visa.

The Quarterly: *Let me just start by going around the table and asking, from your perspective, whether we are indeed in a new normal and, if so, what it looks like.*

Peter Pintar: I don’t think we are. I think we’re coming off of something that was abnormal. It was really a speculative boom in the 2000s, and, as a result, whatever normal is coming afterwards isn’t going to look at all like the normal we’ve experienced in the last decade. The discussion around a new normal is ultimately a discussion around the shape and the timing of economic recovery.

We’re in the middle of a downcycle and, ultimately, how we come out of that, how rapidly we come out of that, is really what this debate is about—as opposed to whether we’re going to be entering a really new and different restructured economy on a global basis. For those reasons, my sense is the phrase “new normal” isn’t appropriate

Niki Manby: It is a bit of a trick question because, as a strategist, conceding that there’s something you weren’t prepared for is not something you want to do. That said, I do recognize a shift in much of how our strategy work evolved and will evolve in the future. And this is very new, in that we generally looked to what I would call the “indisputables” that will carry us forward. When I think of a new normal, it’s very difficult to characterize across industries, but a constant that I see is that it’s difficult to find those indisputables. And that does in fact feel very new.

The Quarterly: *What were some of the indisputables that you used to feel like you could count on that you don't now?*

Niki Manby: One of the indisputables that I believe is being tested in terms of consumer behavior is how consumers spend. Within my space, we see a huge shift to debit as opposed to credit products. And when we look to some of the causal factors, there's one: which is, of course, our recent credit crunch.

Peter Jueptner: I think a lot of the consumer discussion we have is around North America. And you could argue that from a global perspective, the new normal in North America is actually normal when you look at a lot of other geographies. I think it's more of a normalization of the American consumer to what we've seen in the more mature markets before. And then, of course, you have the emerging markets—not just Asia but also Latin America. And I was just in Brazil. It's amazing. People are very, very optimistic there.

We've shifted some of our discussions and resources more into the growing market while we're adapting to the new environment in, for example, North America. What we've also done, by the way, is we've stopped predicting growth rates. It's very hard to predict in these times how much the market will grow. What you *can* do is just really rally the organization around this. You say you're going to grow ahead of whatever the market growth will be. So we will grow 1 percent ahead of market.

Peter Pintar: Is that approach a function of this dysfunction that we've come through, or did you adopt that kind of [approach] before we had this recent downturn?

Peter Jueptner: No, we really changed that in the downturn. We said, "You know, it's impossible to predict."

Rik Geiersbach: What's interesting for me is trying to understand the indisputables. Because I think if you had asked me a year ago what would be the issues that would be challenged today, I wouldn't have guessed the ones that I'm working with now.

On the defense side, we have shifting national budget priorities, which are putting pressure on our national security spend. And I actually don't think I would have anticipated that. I thought that the defense spend would go with the threat environment. That's sort of the way we always operated.

But now, actually, there's a crowding out on the defense side. And on the commercial side, we're seeing it manifest itself, for example, in emerging new competitors. I probably wouldn't have gauged them as coming online as fast as I think they will now, due to the sort of new economic nationalism that's going on now.

Niki Manby: Do you think that nationalism fuels or stalls innovation?

Rik Geiersbach: I think in many ways it could be a catalyst for us on the product-development side, knowing that there's emerging new competitors which are going to come on line—be they China or Russia or Japan—probably sooner than anticipated. But on the other hand, I could see how a global trade dispute over any of these issues could get difficult for everybody.

Peter Jueptner: That triggers a thought. I mean, I think there's definitely a new normal in how you run your company. And I think that's going to stay. Adaptability is front and center. The time when you could just count on the market growing 5 to 7 percent a year and everything was just on the same trajectory—I think that's going to be over for quite some time. You will see different distortions in the system and different trends emerging.

The Quarterly: *How does that need for greater flexibility play out in how you run the company?*

Peter Jueptner: We have sort of an ongoing strategy discussion and a quarterly budget discussion, for lack of a better word, looking ahead for the year and discussing what to do and potentially reallocating some of the resources. So it's much shorter term in terms of how you do your resource allocation. And you change it. You know, usually you do your budget and then you don't change much over the course of the year. Now we're basically changing quarterly and adjusting quarterly.

Peter Pintar: We did three presentations to our board with our annual budget and probably had four revisions on what our industry outlook was, even just for the current year. The industry downcycle has been so much more severe than what we had anticipated even just months ago.

Niki Manby: This word *flexibility* and how we all drive it into our businesses—the word that I think we have to pair that with is *alignment*. You want to be nimble, but at the same time you want to make sure you're turning whole ships and not parts.

So, we think a lot about the fact that strategy should drive your structure. Structure should drive your processes. And if you are making changes in one, how do you ensure the company—holistically or in a business unit—is making changes to the other? How do you make sure your corporate processes and the structure that you've got in place are actually in line with where you want to go strategically?

I think that it's difficult but that inherent in these changes is instituting perhaps more of an ongoing planning process. Believe me, it's easy to say that. [But it's] very difficult engaging employees very broadly to always be thinking about how to react and create

processes within the organization that allow it to respond and make decisions in a very continuous way.

Rik Geiersbach: One thing we've been very deliberate about this year, which I think has been moderately successful, is we have always had performance reviews. But this year, what we've instituted to keep that ongoing cycle going is calling for *potential* reviews—do the underlying assumptions that you baked into your plan still hold? You can do those periodically throughout your organization.

Peter Jueptner: I think the point you made around the alignment of the leadership in the company is critically important. Making sure that you break down the silos, basically, and you have those discussions and you make the decisions is the only way to really do this. Of course, it's more parallel processing. I think we're sort of done with the sequential way.

The Quarterly: *You're all talking about doing a faster planning cycle—not annually, quarterly. It takes a lot of time for people to do that. So what are you not doing? What are you cutting out of your planning process as you increase the cycle time?*

Niki Manby: One of the things that we're doing is thinking about target setting for business units a little differently and incorporating a cushion, for lack of a better word, so that you can think about funding new opportunities outside of the annual planning process. But as we're looking for transformational growth opportunities, to suggest that those are identified, fully baked, and ready for a proposal and blessing in the same month every year is not realistic in our environment.

So, to the extent that we have a planning process and, frankly, a budget methodology that allows for retaining investment funds of significant enough scale that you can seize opportunities as they become real throughout the year, it also will have a silver-lining effect of reducing the pressure that comes with annual planning.

Rik Geiersbach: I'm not sure I've given much thought to what we've given up, given the increased pace on the strategic-planning cycle. But one thing we've been thoughtful about is trying to take the strategy function, which is now enjoying an increased relevance, and saying, "Look, our job in many cases is to be the long-term health advocates for the enterprise, right? So that while there is an army of folks out there making sure that planes fly and satellites get launched, one of our jobs or responsibilities is to be looking over the horizon."

Peter Jueptner: That's actually a good point. You know, a danger in this whole thing—and something that's good to step back [and think about]—is actually that strategy's also become too operational, in a way. And I think this has happened over the last year because everything became a little bit more short term.

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That’s one of the things I’m worried about. One of the things that we may not put as much emphasis on is really the long term, because there’s not a whole lot of time for it right now and it’s actually more important than ever.

Rik Geiersbach: I agree. To be able to actually remove yourself from the day-to-day trench warfare and tell the chairman or others, “That’s actually not even the hill that we want to take. We want to take the hill over there”—that’s our job.

Niki Manby: Do you think that your definition of *long* has changed as you think about that long-range planning?

Peter Jueptner: We’re still sort of doing a three- to five-year outlook, and I think that has not changed, really. And we’re not intending to change that. I think we still need a backbone, longer-term outlook with the shorter-term flexibility.

The Quarterly: *Anyone else?*

Peter Pintar: Companies are coming into this recession with very different balance sheets. Some companies are coming to the recession with billions of dollars of cash; others with 50 percent leverage. So in that environment, the range of options of the players is very, very different. It’s not clear what the constellation of competition is going to look like in a few years. But I’m certain it’s going to be shaped by what’s going on right now, with the stretched companies getting acquired, splitting up, going under and the cash-rich companies looking for ways to deploy those resources, recognizing that this may be in fact a very unique opportunity to pick up assets or invest in growth.

I think that, competitively, the structure of who the players are and how they’re aligned and who’s better off relative to somebody else is going to be very different in a few years. And it’s a function of where we are in the industry cycle. I’m not sure it’s that different from other industry cycles, but because this has been so severe—the downturn—the opportunity is much more profound.

Peter Jueptner: It’s a very key point. And just as an aside, we’ve seen very little M&A activity over the last one-and-a-half years, across industries, really. My expectation would be, with our industry, we’re going to see M&A activity picking up significantly over the next 12 months, because a lot of what you were talking about is going to come to bear, and there will be a bit more of a shakeout and a rearranging of the players. ○